

BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

FEBRUARY 25, 1941

The President's Scratch-Pad



Despite assurances from various quarters, anyone wishing to be realistic must view the defense labor outlook with something less than complete equanimity. The situation contains potentially explosive elements which must be recognized and kept in check if we are to carry forward our preparedness program with the dispatch that world conditions demand.

¶ Professor Leo Wolman, one of the country's ablest students of labor trends, told the AMA Industrial Relations Conference in Chicago last week that unions are going to make heavier demands upon industry—demands that will not be won without friction. "As the area of organizing activity and union demands widens, which it may be expected to do from now on, the occasions for differences of opinion, intransigent attitudes, and, hence, stoppages are bound to multiply," Wolman said. "Some of these stoppages may well be converted into more or less prolonged strikes. This can be avoided in only two ways: first, by the work of a special public agency capable of settling most disputes through the force of public opinion, or second, by giving the unions the concessions they expect to get."

¶ It is not only the possibility that stoppages may multiply but also the fact that the importance of each stoppage will multiply that should give concern. The public may have been indifferent to management and labor disputes of a few years ago, but in 1941 when these disputes begin to interfere with the general welfare the public will exert strenuous pressure to prevent them. If the drift toward more active intervention in the war continues, as it seems to be doing, and if our international policy evolves from "short of war" to "war if necessary" to something else, then work stoppages are going to be regarded with increasing irritation and disfavor.

¶ Both William Knudsen and Sidney Hillman have advised against enacting anti-strike legislation for the defense in-

dustries, holding that to do so might destroy the spirit of voluntary cooperation between management and labor. Mr. Hillman has pointed out that idleness caused by strikes in defense industries to date has been negligible, and that both management and labor are becoming increasingly aware of the responsibility with which they have been entrusted.

¶ In the course of his remarks at the AMA meeting, Professor Wolman made this significant statement: "In the path of this movement (the increased union activity) our government is not likely to interpose formidable obstacles. Ever since it took office in 1933, the present Administration has looked with a kindly eye on large public spending, rising wage rates and strong labor organization. For seven years these measures failed to increase employment, reduce unemployment, and raise the nation's income in anything like the amounts hoped for. Now that the program of defense production seems to be doing just what the Administration wanted to have done ever since 1933, it is not to be expected that the government will seriously interfere with any of the labor trends now gathering force in this country. If it did, it would come into direct conflict with the organized labor movement. For both the C.I.O. and the A.F.L. see in the present situation unusual opportunities to extend their control into non-union industry and to strengthen it in union industry."

¶ The government's policy toward management and labor is well known and Professor Wolman's deduction is entirely justified, yet we might also be justified in expecting that if it becomes necessary the government, without altering its basic philosophy, will take some kind of decisive and vigorous steps to prevent labor strife during the emergency. As Mr. Knudsen and Mr. Hillman have said, no precipitate action seems to be warranted at the present time, but plans for controlling a critical future situation ought to be kept in readiness, and, in the meantime, further extension of the "cooling off period" idea certainly would be desirable, and possibly should be insisted upon.

Alvin E. Dodd

BUSINESS OUTLOOK

Gains Continue; Unfilled Orders Mounting; Consumer Spending Up

While business is beginning to find it difficult to improve on records of the weeks immediately past, there are still scattered gains to be found in many industries, and total business volume at present is at the highest point in more than a decade. Factory shipments are unprecedentedly heavy and unfilled orders in many lines are continuing to rise. The business curve is still a long way from reaching its zenith, according to the summaries on the inside pages of this LETTER.

That the recovery is spreading over from heavy industry to consumer lines is indicated by the fact that consumer spending in January was the heaviest for that month since 1930. Any forward buying done by merchandisers during 1940 is evidently being justified, since there is no current indication of a letup in the buying trend. At the same time automobile sales are remarkably strong and residential building is more active than it has been at any time since 1929. This marks the first time since the '20's that the building industry has approached full recovery.

Payrolls Increasing

Meanwhile wages keep pace with the general advance. The index of factory payrolls, as compiled by the Bureau of Labor Statistics and based on 1923-1925 as 100, rose for the fifth consecutive month in December to 122.8 from the November level of 116.5, or to the highest figure since June, 1920, when the index was 124.4. While unemployment still is high, and the employable but idle labor force is still large, steady absorption is going forward and this will proceed faster as greater numbers of finished trainees emerge from the training schools.

As yet no inflationary tendencies have appeared in commodity prices and the principal markets continue on an even keel. Sharply increased industrial activity naturally exerts an upward pressure on prices; but combating this pressure is the general abundance of industrial materials and foods. Meanwhile both government and business remembering the experience of 1917 are cooperating to prevent runaway trends.

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VOL. 14, No. 2 — PREPARED MONTHLY BY THE AMERICAN MANAGEMENT ASSOCIATION

	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	<p>For the full year of 1940, the national income amounted to \$76,819,000,000, the largest annual amount since 1929. While it is likely that the seasonal downward trend which began in November will be extended in February, the prospect is that the annual national income in 1941 will be larger than in 1940 (Feb. 8).</p>	<p>New highs in general business during January lifted the Business Index to the best levels witnessed in 11 years. However, until the armament-stimulated expansion hits full stride, a let-down may occur in some industries where the recent large-scale buying has been partly anticipatory (Feb. 1).</p>	<p>Essentially, the business trend is unchanged; defense is still the dominating force. But evidence points to a quickening of European developments, and we must be prepared for a "defeat scare" this spring; we must include in business calculations the possibility of a temporary collapse in market sentiment (Feb. 15-22).</p>
Money and Credit	<p>The unfavorable factor of a declining bond market persists. However, prices still have given but little ground from their best levels of last year—in fact, have yielded so little as to make for a change of less than one-tenth of 1% in average yields (Feb. 20).</p>	<p>Evidence accumulated in the past month indicates that the bond market may now have entered a new phase—the beginning of a declining trend that may continue over an extended period of time; such a decline will probably be gradual, but may be accelerated by increasing pressure of demand for loans (Feb. 8).</p>	<p>Increasing demand for money from industry has resulted in a fairly general expectation of higher interest rates. These expectations, however, seem to have very little real conviction behind them; moreover, even the most intrepid prognosticators are reluctant to predict when interest rates will start to rise (Feb. 22).</p>
Security Markets	<p>Stock values declined during January by 3.85%—the largest proportionate decrease since the inception of the present movement. The forecast is for a continuation of the bearish trend (Feb. 13).</p>	<p>On the one hand, powerful basic forces favorable to the stock market in the long run continue evident; on the other hand, nothing in the recent behavior of stock prices is of a nature to change the view that the balance of immediate market factors is on the unsettling side (Feb. 15).</p>	<p>War, for the third time since its outbreak, has put a crimp in the sale of new securities to the public; of a score or more new issues recently placed on the market, only a handful can be described as completely successful floatations, and several have been very definitely "slow" (Feb. 22).</p>
Production	<p>The index of the output of all products (including mining and agriculture) declined from 120.1 in November to 112.8 in December (1929=100); the quantity of goods produced in December, however, was larger than in the same month of 1939, when the index was 106.0 (Feb. 8).</p>	<p>The latest week's steel operating rate of 97.1% is computed on the enlarged capacity available in 1941; since the new capacity is 3% higher than that of 1940, the rate would have been equal to 100% on the previous year's capacity (Feb. 1).</p>	<p>Auto assemblies are running at 128,000 a week—a new high for the year and only a shade under the November peak of 129,000 cars. Consumers have been buying cars at a gay rate—feeling higher prices or a new-car shortage, or both. Once the auto plants are tuned up for defense, car output may fall sharply (Feb. 15).</p>
Distribution	<p>Freight car loadings in 1940 amounted to 36,354,000 cars as against 33,911,000 in 1939, an increase of 7.2%. Loadings for the year, however, were still far below the 1929 figure of 52,828,000 cars. Annual loadings may reach 40,000,000 in 1941 (Feb. 1).</p>	<p>Retail trade in the first month of the new year was notably active, and the relatively open weather contributed to the magnitude of the gains over the storm-ridden January of a year ago (Feb. 1).</p>	<p>Retail sales in December and January were unusually good, and reports this month indicate no significant letup in consumer spending. Stocks of merchandisers are definitely not piling up, and reorders for goods are buoying manufacturers at the present time (Feb. 22).</p>
Construction	<p>The volume of building contracts showed a contra-seasonal rise from November to December and reached the highest monthly total since June, 1928; this means that manufacturers will receive unusually strong support from the building industry during the next several months (Feb. 8).</p>	<p>The defense program will accelerate both residential and industrial construction activity. The Defense Housing Coordinator is pushing a housing program for workers and enlisted personnel in defense areas. One company alone (du Pont) will spend \$213,000,000 for construction in 1941 (Feb. 8).</p>	<p>The year 1940 fulfilled its promise as a home building year, contributing a 15% gain to the upsurge in national prosperity. During the year construction costs rose 5 1/2%, labor costs mounted 7.8%, and prices of building materials averaged 4.4% higher. On the other hand, rents rose only 1.1% (Feb. 8).</p>
Agriculture	<p>The farmers' annual cash income from marketings rose to \$8,328,000,000 in 1940 from \$7,711,000,000 in 1939; nevertheless, it was still well below the pre-depression figure of \$11,221,000,000 in 1929. The farmers' purchasing power in 1940 was 5.5% above the 1939 level and, in fact, was higher than in 1929 (Feb. 15).</p>	<p>The Department of Agriculture's seasonally adjusted index of farm income registered 85.5 for December, which compares with 96.5 in November and 79.0 in December, 1939 (1924-9=100) (Feb. 1).</p>	<p>Exports of agricultural products fell sharply in 1940. British restrictions and rationing laws, plus the Continental blockade, dropped agricultural exports to the lowest level in years. Measured by quantity indexes, such exports during the final months of 1940 reached the lowest level since 1869 (Feb. 15).</p>
Commodity Prices		<p>The <i>Journal of Commerce</i> composite index of wholesale prices stood at 133.3 on Jan. 31, compared with 133.0 on Dec. 31 and 128.2 a year previously (Dec. '33=100) (Feb. 1).</p>	<p>During the latest week for which figures are available, Moody's Spot Commodity Index averaged 172.6, which compares with 150.0 six months ago and 160.2 a year ago (Dec. 31, 1939=100) (Feb. 22).</p>
Labor and Wages	<p>The index of factory payrolls, as compiled by the Bureau of Labor Statistics and based on 1923-25 as 100, rose for the fifth consecutive month in December to 122.8 from the November level of 116.5, or to the highest figure since June, 1920, when the index was 124.4 (Feb. 8).</p>	<p>As long as the reserve labor supply is running low and the demand is being augmented by the National Defense Program, labor costs will rise, the strike threat will be serious, and existing inflationary forces may be given impetus (Feb. 15).</p>	<p>It is significant that of the 1,500,000 increase in non-agricultural employment last year, construction accounted for 450,000, or 30% of the new workers (Feb. 1).</p>
Foreign Trade and Conditions	<p>For the full year 1940, the value of merchandise exports rose to \$4,022,000,000 from \$3,177,000,000 in 1939, an increase of 26.6%; exports in 1940 were larger than in any preceding year since the pre-depression year of 1929, but they were still considerably below the 1929 amount of \$5,241,000,000 (Feb. 8).</p>	<p>Merchandise exports during December amounted to \$322,500,000; this was 1.6% less than in November and 12.4% under December, 1939. Imports of merchandise in December aggregated \$253,100,000—13.2% more than in November and 2.6% above December of the previous year (Feb. 1).</p>	<p>Increasing domination of the foreign-trade picture by war necessities is shown in the export gains registered by aircraft, machine tools, heavy iron and steel, non-ferrous metals, firearms, and certain chemicals; exports of these categories reached a total of \$1,492,000,000 in 1940, 37% of all exports for the period (Feb. 15).</p>

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Dun's Review

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Cleveland Trust Company

There can be no real doubt that the general trend of industrial activity during 1941 will be an advancing one, even in industries that are now said to be working at capacity; there may be a few rare exceptions such as steel, where the industry is working on a 24-hour day basis (Feb. 15).

It now appears unlikely that the program of fiscal and banking reform recommended by the Board of Governors of the Federal Reserve System, which was largely designed to create safeguards against the inflationary developments that might accompany greatly increased industrial production, will be adopted (Feb. 15).

Stock prices followed a downward course in the latter part of January and early February; by mid-February the index of industrial stock prices (Dow-Jones) was the lowest since June, 1940; corporate financing in January was the largest for the month in a decade, with refunding accounting for a major proportion of the issues (Mar.)

Industrial activity showed less than its usual letdown in January, and the adjusted index of production (FRB) advanced 1 point to 139; automobile production was the highest for the month on record; steel, copper, rubber, cotton, woolen and rayon were some of the industries setting all-time high marks (Mar.).

Consumer spending in January was the heaviest for that month since 1930; the seasonally adjusted index of department store sales (FRB) held unchanged at 101% of the 1923-1925 average; the adjusted trade barometer of *Dun's Review* dropped off slightly but was still 108% of the 1928-1932 average (Mar.).

A less-than-seasonal decline was evident in building activity during January, and permits for 215 cities reached the largest total for that month since 1931; permit valuations of \$105,558,541 were 24.7% greater than the amount in the corresponding month of 1940 (Mar.).

Commodity trading moderated in the latter part of January and early February; price changes were minor, but some markets showed an easier tone and the average moved off slightly; at 123.03 on February 17, the Dun & Bradstreet daily wholesale price index compared with the wartime high of 125.21 reached Jan. 9 (Mar.).

Factory employment held practically unchanged at the record-high December level; in New York State factories, payrolls increased slightly, though the usual seasonal trend has been a loss of almost 3% between December and January (Mar.).

National City Bank

The business news continues all of one kind. The industries are driving hard and expanding to meet the defense program, and increasing employment and payrolls keep trade at high figures. Although factory shipments are breaking records, unfilled orders in most lines have risen further (Feb.).

As the defense program develops, it becomes important that an increasing proportion of government securities should be sold to institutions other than commercial banks. When banks subscribe to government loans they create additional deposits, increasing volume of purchasing power available and danger of inflation (Feb.).

In the current British liquidation of American securities, total sales amount to \$334,000,000. Sixty-eight prominent issues had been entirely sold by Jan. 1, mostly through private negotiation. Blocks of stocks sold "over the counter" accelerated activity in Jan. and produced no seriously depressing effects on the markets (Feb.).

Steel ingot capacity was increased during 1940 by 2,500,000 tons, the largest gain in 10 years. Further increases of possibly 2,000,000 tons are already scheduled for this year, and total capital expenditures by the steel industry in 1941 are budgeted at \$282,000,000, a 65% increase over 1940 expenditures (Feb.).

Some observers expected business to slacken during the Winter, because of seasonal influences or forward commitments; however, the holiday slackening was less than usual and the pickup afterward sharper than looked for. Automobile production rebounded to the Fall peak, reflecting unseasonably good sales (Feb.).

Heavy engineering construction awards in four weeks of January totaled \$502 million, according to the *Engineering News-Record* compilation, an increase of 149% over last year. Various authorities estimate the probable gain in total building in 1941 at 10 to 15% (Feb.).

Raw cotton has been going into mill consumption at a rate approaching 9,500,000 bales for the season—previous record, 7,950,000 in 1936-37. Federal subsidies to agriculture in 1942, budgeted substantially below the 1940 all-time high, are still expected to run over a billion dollars—about 4% less than in 1941 (Feb.).

Commodities are in strong demand, and in a significant number of cases prices are being held down only by the self-restraint of sellers. With buyers apprehensive of rising costs to come and the effects on prices, forward buying is as much in favor as at any time since the upswing started (Feb.).

In manufactured goods industries demands for higher wages are increasingly in prospect. This is where the principal inflationary danger exists. There is no rising cost of living, at least of a general character, to support arguments for higher rates; and labor is making great gains through more workers, overtime rates, etc. (Feb.).

The British Empire absorbed in the last six months about two-thirds of our exports, representing an annual rate of about \$2,400,000,000. A study by the Federal Reserve Board recently expressed the opinion that our exports to the Empire in 1941 may reach \$3,500,000,000 (Feb.).

New AMA Packaging Division Announced

Oliver F. Benz Chosen Vice President To Direct Future AMA Packaging Activities

Program Announced For Conference And Exposition on April 1-4

The creation of a new Division of the AMA to administer the Association's packaging activities has been announced by the Board of Directors through President Alvin E. Dodd. Simultaneously the Board announced the appointment of Oliver F. Benz, former Director of Sales, Cellophane Division, E. I. du Pont de Nemours & Company, Inc., as Vice President of the new Division.

Formerly the packaging activities of AMA were directed by the Marketing and Production Divisions, packaging being regarded as a tool of management coming within the marketing and production functions. The Board now believes that packaging activities have achieved such importance that a special Division is necessary for their administration.

Mr. Benz, who has been identified with the AMA's packaging work since the inception of the Packaging Exposition and Conference more than 10 years ago, joined the du Pont Company when that concern created the Cellophane Division in 1923.

1941 Conference and Exposition

The final program for the Packaging Conference that will be held at the Stevens Hotel, in Chicago, on April 1-4, has been completed. The Conference and Exposition this year are expected to be of unusual interest because of the attention they will give to packaging problems created by the defense program.

The Conference program is as follows:

Tuesday A.M., April 1. "A Case History of Informative Labeling," Fred C. Hecht, Manager, Packaging Division, Sears, Roebuck and Company; "The Economics of Packaging," E. A. Throckmorton, General Manager, Sales Promotion, Container Corporation of America; Mrs. W. E. Fribley, President, Chicago Housewives' League.

Tuesday P.M., April 1. "How Does the Defense Program Affect Packaging?" During this session representatives of various industries will report on how defense is affecting packaging and will discuss each industry's ability to fill packaging needs during the emergency. Such industries will be represented as: paper, plastics, metals, transparent sheeting, packaging machinery, shipping containers, etc.

Wednesday A.M., April 2. "The Permeability of Containers to Water Vapor," Warren Emley, National Bureau of Standards; "Display as a Factor in Package Merchandising," W. L. Stensgaard, President, W. L. Stensgaard & Associates, Inc.; "The Standardization of Container Capa-



OLIVER F. BENZ

cities," Alex Pisciotta, Director, Bureau of Weights and Measures.

Wednesday Noon, April 2. "How the Warring Countries Have Met Their Packaging Problems," I. M. Sieff, Vice Chairman, Marks & Spencer, Ltd.

Wednesday P.M., April 2. "Versatility in Gluing Mechanisms," Dr. F. C. Campins, Chemical Engineer, National Starch Products, Inc.; "Manual vs. Machine Operations as Cost Factors," E. A. McElwain, Gas Mask Plant No. 2, Johnson & Johnson.

Thursday A.M., April 3. "Trends in the Use of Forest Products for Shipping Containers," Ralph W. Marquis, Division of Forest Economics, U. S. Forest Service; "Packing and Shipping Specifications on Army and Navy Shipments," A. W. Luhrs, President, Container Testing Laboratories; "Corrugated Board and Its Component Parts as Engineering Materials," T. A. Carlson, Forest Products Laboratory, U. S. Department of Agriculture.

Thursday P.M., April 3. Shipping Container Clinic. Twelve manufacturing companies will submit their containers for analysis at this Clinic.

1,600 Executives Attend Industrial Relations Meeting

Sixteen hundred executives from widely diversified industries attended the AMA Industrial Relations Conference which was held in Chicago on February 12-13-14. From the standpoint of attendance and from the number of sessions that it featured the Conference was the largest that this Division of AMA has ever sponsored. Leadership for the meeting was supplied by Harold F. North, Director of Industrial Relations, Swift & Company, who as Vice President of the AMA Personnel Division directed the work of the Planning Committee.

Marketing Sessions Being Planned For April 22-23

Plans for the next AMA Marketing Conference are already in full swing. The sessions will be held on April 22-23 at the Hotel Roosevelt, New York City.

Under the direction of E. O. Shreve, Vice President, General Electric Company, and H. R. Chapman, Vice President, New England Confectionery Company, who respectively head up the AMA Industrial and Consumer Marketing Divisions, the tentative program draft was drawn up and sent in questionnaire form to the membership of the Divisions.

The questionnaire has resulted in a great many suggestions on topics and speakers. And a special session of the Conference Planning Group met on February 25 to consider them.

Plans now call for a two-day Conference to include the following major themes:

Responsibilities to the Customer in a War and Defense Economy. Discussions under this heading will cover such problems as: customer relations in a sellers' market; how to "nurse" accounts through priority irritations; making "service men" out of salesmen; keeping the sales force intact to meet customer needs after the war; pricing problems under today's conditions.

Today's Problems in Selection, Training, and Retraining. A recent AMA survey showed that tremendous interest exists in selection techniques for salesmen. Special emphasis will therefore be placed on this problem at the coming Conference. Training and retraining problems to meet today's selling needs will also be given emphasis.

Getting Your Story to the Customer—and Getting Him Interested in It. This session is planned as a "symposium" of well-known authorities on the place of the four principal media of customer contact in today's selling: broadcasting; consumer magazines; industrial and trade magazines; and direct by mail. The Committee is also planning to present the reactions of a large-scale user of these media.

Developing the Most Effective Sales Tools. An afternoon will be devoted to "case study" presentations of selling methods employed by companies that have recently achieved spectacular results in putting across new products or in stepping up the sales of the regular line.

The first day of the two-day Conference will be held on one of the regular luncheon-meeting days of the Sales Executives Club of New York, and the AMA Conference Planning Committee is contemplating a joint AMA-SEC luncheon.

